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Suspected of Embezzling an Enormous Amount of State-Owned Assets –
Three Senior Officers of Weifang Neo-Luck Are Investigated¹

Rapid development and expansion through mergers has entailed major “negative effects” for Neo-Luck—an asset-liability ratio as high as 90.8%. Beginning in 2003, the high-grade assets under the Neo-Luck flag, including Fuhua Amusement Park, Yuanfei Hotel, Fuhua Hotel, and the like, went bankrupt in succession. At the end of last year, the rumors that had been spreading on the street were finally proven true.

On May 1, 2007, a joint special case group composed of four departments, the Central Commission for Discipline Inspection, Public Security Bureau, National Audit Office, and Banking Regulatory Commission, “airdropped” on Weifang. The individual who actually controls Weifang Neo-Luck (Group) Co. Ltd. (hereafter called “Neo-Luck”), former chairman YI Jun, current chairman WANG Duo, and former director and deputy general manager in charge of finance JI Xiaofang, were investigated [*shuanggui*] for embezzling massive amounts of state-owned assets and on suspicion of economic crimes.

“Recently everyone has been talking about this in private, saying that this was going to happen sooner or later.” A Neo-Luck manager who was unwilling to reveal his name said that

¹*Shuanggui* (literally “double specified”) is shorthand for “to investigate at a specified time and specified location,” language which comes from the Chinese Communist Party’s disciplinary statutes. It is rendered below as “investigate [*shuanggui*]” to distinguish it from the standard meaning of “investigate.”

these past few years, when the enterprises under the Neo-Luck flag went bankrupt in profusion and were subsequently converted to personal property, even though the employees including the managers were all basically the same as before, nevertheless everyone still felt uneasy about what had happened. “These past few years, all the money made by the Fuhua Hotel went to the Yayue Hotel Management Company of Beijing rather than to the Neo-Luck Group. At the same time, even though the enterprises that went bankrupt were still actually under the control of YI Jun, nevertheless the names of these enterprises were all changed. Neo-Luck Plastic Cement became Fuwei Plastic Cement. Why were the names changed? Probably they were changed to avoid debt repayment.” This manager said that their suspicions were aroused early on by the behavior of certain senior Neo-Luck officers.

Enterprises under the Neo-Luck Flag Go Bankrupt in Profusion

Neo-Luck was established in 1987, 99% of its shares are held by the Weifang State-owned Asset Management Bureau, its registered capital is 363 million *yuan*, and it owns over 20 fully invested enterprises and holding companies; it has three overseas branches, in the United States, Australia, and Hong Kong, China, respectively; it has over 4000 employees, and is one of 136 key enterprise groups of Shandong Province and one of 520 key enterprise groups nationwide. The Fuhua Hotel, Yuanfei Hotel, and Fuhua Amusement Park, all of which were under the Neo-Luck flag, became icons of Weifang. The Plastic Cement Stock Company was the group’s leading industrial company and occupied second place in the domestic polyester thin film industry.

In 2000, the group's sales volume reached 3.27 billion *yuan*. However, rapid development and expansion through mergers also entailed massive "negative effects" for Neo-Luck—as of June 30, 2001, the total amount of the group's long-term debt was 1.12 billion *yuan*, its long-term loans were 1.10 billion *yuan*, moveable debts were 2.35 billion *yuan*, and short-term loans were 1.96 billion *yuan*; its total assets were 3.82 billion *yuan* and its asset-liability ratio was 90.8%.

Around 2000, Neo-Luck began to downsize its enterprises and implement bankruptcy debt repayment. In July 2003, the Yuanfei Hotel under the Neo-Luck flag went bankrupt; in 2005, Weifang Fuhua Xinjianye Real Estate Co. Ltd., Neo-Luck Plastic Cement Co. Ltd., and Neo-Luck Stone Product Co. Ltd. went into bankruptcy proceedings in succession; in March 2006, the company's former core assets—Weifang Fuhua Hotel Co. Ltd. and Weifang Fuhua Amusement Park Co. Ltd.—were ruled bankrupt for debt repayment by the Weifang Municipal Intermediate Court.

In January 2007, the first creditor conference after the Fuhua Hotel was declared bankrupt for debt repayment was held in Weifang. As of this time, basically all of the high-grade enterprises under the Neo-Luck flag were bankrupt.

Acquisition by Great Wall Is the Precipitating Cause

The problem was revealed after the Great Wall Asset Management Corporation purchased the Neo-Luck Group's debts.

In October 2005, the Great Wall Corporation purchased Neo-Luck's bad debts with a face value of 1.9 billion *yuan* from the Bank of China. The Great Wall Corporation's interest in Neo-Luck was aroused by Neo-Luck's 160 million-*yuan* right-to-profit from a parcel of land under its flag in Guangzhou and the subject matter of an intent that had been reached to offset debt—the Fuhua Hotel. However, even after the Great Wall Corporation took over, this 160 million-*yuan* land usufruct which had been frozen in November 2003 was nevertheless transferred away by the Weifang Intermediate Court on the rationale that Weifang Fuhua Xinjianye Real Estate Co. Ltd. was bankrupt. In March 2006, the Fuhua Hotel was also ruled bankrupt by the Weifang Intermediate Court.

The Great Wall Corporation's losses were grave. ZHANG Wentang, the director of their news office, said, "this case involves the loss of the largest amount of state-owned assets in the history of Great Wall's disposal of bad assets and very possibly is also the case involving the largest loss of state-owned assets among the four asset management companies."

In November 2006, the Great Wall Corporation reported the case to the Public Security Department through the Banking Regulatory Commission, requesting that YI Jun, WANG Duo, and multiple other senior Neo-Luck officers be subjected to travel restriction (be prohibited from leaving the country). As of February of this year, extended travel restrictions were imposed on them a second time (in general, a term of travel restriction is for 3 months).

In mid-March this year, the National Audit Office began a routine audit of the Great Wall Asset Management Corporation. The auditors' attention was aroused by suspicious signs that the Neo-Luck was involved in fraudulent bankruptcy as a means of debt evasion and of embezzling state-owned assets.

After this, the National Audit Office performed a special onsite audit of Neo-Luck projects. In mid-April, following its investigation, the National Audit Office concluded that the case was a serious one and accordingly reported the case to the State Council as an “important audit” and received important instructions. On May 1, the special case group composed of the four departments hastened to Weifang and took control of senior Neo-Luck officer YI Jun and others in accordance with the law. At present, the case is being further investigated.